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Annual Report

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Report Highlights:
Argentine beef exports for 2005 are projected at 600,000 tons, the highest since 1980. This is a result of strong world demand, an improved sanitary status, and good profitability. The United States, the European Union, Russia, Chile and Venezuela are expected to be the main markets. Beef output in 2005 is forecast to drop after the very large slaughter in 2004.

Includes PSD Changes: Yes
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Annual Report
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SECTION I. SITUATION AND OUTLOOK

Argentine beef exports for 2005 are forecast at 600,000 metric tons (MT), the highest of the past 25 years. This is as a result of a combination of several factors, but primarily because of an extraordinary strong international demand, good profitability and the opening of new markets.

After the devaluation in early 2002, Argentine products became very competitive in the world market. Despite increased costs in the past 2-3 years, exporters and meat packers continue to be profitable. Apart from cattle prices, which tripled in pesos after the devaluation, labor, services, utilities, packaging, etc. have increased and are expected to continue to do so, at a slower pace, in 2005. The local cattle/beef sector is in a healthy economic condition. Moreover, exporting plants are expected to continue enjoying firm international beef prices throughout 2005. Argentine average FOB prices in the first semester of 2004 increased about 25 percent.

The Argentine Government (GOA) continues to work hard in opening new markets which closed in the last few years because of the foot and mouth disease (FMD) crisis. With the compulsory vaccination, the disease has been controlled. The last outbreak was in September 2003, and found in a few pigs owned by a very small producer in the northern part of Salta province, close to the Argentine border with Bolivia. The International Office of Epizootics (OIE) is expected to declare Argentina free of FMD with vaccination by the end of 2004. In May 2004, the OIE declared Argentina provisionally free of BSE. This provides the country strong advantages in markets which are very susceptible to this disease. By mid-2004 there were more than 80 markets open to Argentine fresh beef and a few more are expected to be added to the list in 2005.

The recovery of the world beef market in 2004 (and projected for 2005) had a positive impact on the local livestock sector. Our previous export projection for 2004 was significantly lower than post's current 540,000 tons. The BSE outbreak in the U.S. had just been announced, with many analysts predicting an important drop in consumption in that country, but in fact, demand expanded quite vigorously. Also, the very low level of beef stocks in the EU and the problems of supplying many near-by markets opened unexpected opportunities for Argentina.

Argentine beef exports consist primarily of boneless fresh and frozen beef and processed products. In the past several months, shipments of boneless frozen beef have increased dramatically, especially due to low-price markets. This trend is expected to continue until the opening of the U.S. and Canadian markets, which demand large volumes of trimmings, but pay higher prices. Local exporters hope to see these two major markets open in early 2006. The main export markets in 2005 will be the EU, the U.S. (for cooked meat), Russia, Israel, Chile, and Venezuela.

There are roughly 6-7 local companies which produce cooked frozen beef and only 2 which produce corned beef. Exports of cooked frozen are also expected to increase significantly in 2005 as prices and demand are on the rise. However, exports of corned beef are forecast to remain somewhat stable, primarily due to the aggressive competition from Brazil. The U.S. and the EU are the main markets for these types of products. Traders do not see much investment in this sector in the near future, as there is still unused capacity.

Beef imports for 2005 are forecast to be negligible. Argentina still markets domestically a significant amount of its beef at very competitive prices. In the recent past, most imports were short ribs, a very popular cut for barbeques, from Uruguay. However, cattle and beef prices in the neighboring country have increased significantly as a result of large exports to the U.S. and Canada. Beef and offal from the U.S. are prohibited due to BSE. The two countries are working together in order to resolve this issue.

Cattle slaughter in 2005 is projected to fall somewhat to 13 million head. A large slaughter in 2004, with a strong liquidation of cows and calves, and the expectation of firm cattle prices for 2005, could induce a moderate stock rebuilding. Moreover, heavier steers for export are expected to continue to receive a price premium vis-à-vis lighter cattle for the domestic market, and some official incentives to produce heavier cattle could stretch out somewhat the finishing of part of the herd.

While beef exports in the 1990s accounted for about 10-15 percent of the total output, in 2005 they are expected to account for 22 percent. With a strong world beef market and a competitive exchange rate, beef exports will continue to increase their share of the total out put in the future. Therefore, if Argentina does not make a serious effort in increasing production efficiency, Argentines will be forced to eat less beef, a prospect which would not be welcome.

With over 100,000 cattle producers, the level of management and investment at the ranch level varies considerably. However, in the big picture, cow-calf operations are spread around the country, but are located especially in the provinces of Buenos Aires, Santa Fe, Cordoba, Corrientes, Entre Rios and La Pampa. With roughly 21-23 million cows, there are a lot of very efficient ranches with weaning rates of over 80 percent, but there are also a large number of producers, generally smaller, which need to incorporate low-cost management tools to improve their very poor performance. Generally speaking, investment in this sector has not changed significantly, nor is it expected to do so in the near future. Cattle finishing operations have generally been much more progressive and, in general terms, very efficient. However, this sector is in a state of deep transition. After the devaluation in early 2002, crop production became an excellent business because of low-cost production and high income translated into pesos. Some analysts calculate that between 3-4 million hectares of high-productive implanted pastures were shifted to crops, primarily, soybeans. However, many cattle finishers did not get rid of their herds. Some took their cattle to other less productive regions, but many have intensified their production devoting a smaller area of the farm. Today, most finishers have reduced their pastures to the minimum possible and feed their cattle with grain or silage in the last 100 days to produce an adequate fat animal. These operations have invested in equipment, management and infrastructure to adapt to this type of production and they are expected to continue to adopt new tools, as they are available. There are several commercial feedlots of different size, and they are expected to continue to operate at high capacity. However, we do not expect a strong expansion in this type of operations in the near future.

As result of good profits and high expectations of the country's future beef exports, the local meat packing industry is investing strongly in upgrading operations. Most of the cases are small and medium provincial plants, scattered around the country, which are modernizing corrals, cold chambers, and adjusting the sanitary conditions and packaging for exports (not necessarily for the very demanding EU market). In the past several months, and for the first time in several years, foreign buyers have partially acquired local export meat packing plants. A U.S. company purchased 50 percent of the equity of one of the top local beef export plants in Argentina and a British beef distributor company purchased 50 percent of the equity of a meat packing plant, which has focuses primarily on niche markets and products. A local oil crushing company recently purchased a very important export oriented plant which was in financial trouble. The beef processing industry has increased its capacity significantly in the past 2-3 year, as result of the opening of many small and medium plants which had been shut. Moreover, there are some indications that there are some very few new plants under construction.

Cattle prices for 2005 are projected to increase 5-10 percent, from the current US$0.70 per kilo of live steer. Increased exports, somewhat lower beef supply, large industry capacity, and better salaries are expected to put pressure on prices.

The GOA has stated that it will maintain an exchange rate that keeps local products competitive in the world market. Therefore, although there is a controlled annual inflation of 7-12 percent, economists expect the exchange rate to follow the inflation rate and stay in line with the value of the real, the Brazilian currency.

The GOA, after decades with no specific policy directed to the cattle/beef sector, is expected to announce in the next few weeks a "Cattle Program". The program will focus on increasing beef production, especially to attend a growing foreign demand. Although details have not been announced yet, some sources indicate that this program will contain tax exemptions to encourage producers to finish their cattle heavier. Also the GOA would provide some support to increase the number of reproductive females and expand the area dedicated to pasture. A few private sector contacts are skeptical of the scope and impact of this program.

The Institute of Beef Promotion is finally beginning to operate. It collects about US$0.67 per slaughtered animal. Producers contribute with 70 percent and the balance is paid by the beef industry. Its main focus is to promote Argentine beef in foreign markets.

SECTION II. STATISTICAL TABLES

Commodity	Meat, Beef and Veal				(1000 MT CWE)(100(	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [	)A Official [	Estimate [	)A Official [	Estimate [I
Market Year Begin		01/2003		01/2004		01/2005
Slaughter (Reference)	13000	13000	12400	14000	0	13000
Beginning Stocks	0	0	0	0	0	0
Production	2800	2800	2650	2900	0	2730
Intra EC Imports	0	0	0	0	0	0
Total Imports	12	10	10	3	0	2
TOTAL Imports	12	10	10	3	0	2
TOTAL SUPPLY	2812	2810	2660	2903	0	2732
Intra EC Exports	0	0	0	0	0	0
Total Exports	384	380	420	540	0	600
TOTAL Exports	384	380	420	540	0	600
Human Dom. Consumptic	2428	2430	2240	2353	0	2132
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumptic	2428	2430	2240	2363	0	2132
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2812	2810	2660	2903	0	2732
Calendar Yr. Imp. from U.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country Argentina
Commodity Animal Numbers, Cattle (1000 HEAD)

	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [
Market Year Begin		01/2003		01/2004		01/2005
Total Cattle Beg. Stks	50869	50869	50268	50768	49768	49066
Dairy Cows Beg. Stks	2000	2000	2000	2000	0	2100
Beef Cows Beg. Stocks	18400	19000	18200	18800	0	18600
Production (Calf Crop)	13600	14000	12700	13000	0	14200
Intra EC Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	64469	64869	62968	63768	49768	63266
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	0	2	0	2
TOTAL Exports	1	1	0	2	0	2
Cow Slaughter	4400	4400	4400	4800	0	4200
Calf Slaughter	1900	1900	1600	2200	0	2000
Other Slaughter	6700	6700	6400	7000	0	6800
Total Slaughter	13000	13000	12400	14000	0	13000
Loss	1200	1100	800	700	0	700
Ending Inventories	50268	50768	49768	49066	0	49564
TOTAL DISTRIBUTION	64469	64869	62968	63768	0	63266
Calendar Yr. Imp. from U.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Country Argentina

Commodity Meat, Beef and Veal

Prices in Pesos per uom Kilo

Year	2003	2004	% Change
Jan	6.23	6.15	-1%
Feb	6.21	6.21	0%
Mar	6.25	6.48	4%
Apr	6.2	6.51	5%
May	6.15	6.54	6%
Jun	6.04	6.49	7%
Jul	6.05	6.48	7%
Aug	6.06		-100%
Sep	6.02		-100%
Oct	6.02		-100%
Nov	6.02		-100%
Dec	6.09		-100%

Exchange Rate 3/1 Local Currency/US $

Date of Quote 9/1/2004 MM/DD/YYYY

Prices Table

Country Argentina

Commodity Animal Numbers, Cattle

Prices in Pesos per uom Live Kilo

Year	2003	2004	% Change
Jan	2.06	1.91	-7%
Feb	2.06	2.03	-1%
Mar	2	2.01	0%
Apr	1.91	2.11	10%
May	1.86	2.07	11%
Jun	1.86	1.99	7%
Jul	1.87	2.04	9%
Aug	1.93		-100%
Sep	1.88		-100%
Oct	1.89		-100%
Nov	1.88		-100%
Dec	1.97		-100%

Exchange Rate 3/1 Local Currency/US $

Date of Quote 9/1/2004 MM/DD/YYYY

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Production

Ending stocks for 2005 are projected at 49.6 million head. This would be a small rebuilding after the very high slaughter of 2004, in which many open cows were marketed on account of the severe drought suffered in 2003. Also a larger-than-normal number of finished calves were slaughtered in 2004 as the severe reduction of pastureland made demand of calves very weak and thus, cattlemen preferred to send them to feedlots and finish them light, but with an eye to greater profitability. There are great discrepancies with regard to the total herd number. While the official census of 2002 indicated 48 million head, the official FMD vaccination program estimated a stock of about 10 percent higher. Most analysts believed that the real number is somewhere in between. However, a few analysts now estimate that the real number is closer to 52-54 million. The provision of good, realistic and accurate statistics is one of the main demands made by the Institute of Beef Promotion, and other entities as well.

Slaughter for 2005 is forecast at 13 million. Here also there are discrepancies. The official slaughter does not include anything outside officially inspected plants. Therefore, on-farm consumption and some marginal marketing are not included. Although nobody knows the volume of the foregoing, post adds 4-6 percent more. There are some analysts who estimate the “unofficial slaughter” closer to 10 percent.

As mentioned above, we do no see great changes at the cow-calf ranch level. Some top producers increase their area of implanted pastures, especially in the subtropical provinces of Chaco, Formosa and the dry provinces of San Luis, Mendoza and La Pampa. They are also improving the quality of bulls they use. Many producers instead of selling calves at weaning, they are putting some extra kilos on them and then send them to feed lots. In contrast, there are many small and medium operations which continue to work the “old way”, with very low efficiency rates. They need to improve primarily the sanitary and nutritional aspects. The facts that cattle have moved to less productive lands and are grouped together in a smaller space are also affecting efficiency.

Fewer producers continue to finish cattle the way they use to 3-4 years ago on high productive alfalfa pastures. With excellent profits in cropping, most cattlemen are finishing their cattle on corn (dry or humid grain and/or corn silage) and freeing up more pastureland for crops. Private sources estimate that over 3 million head of cattle, which are slaughtered, come off commercial or on-farm feed lots. As the number of cattle which need to be finished in feedlots grows, the average slaughter weight drops. Over 60 percent of the cattle finished in confinement are calves, weighing approximately 250 kilos live at slaughter. By finishing cattle so light, the country is losing the possibility of putting many more kilos on those animals. Although there are many different factors to take into account while analyzing the profitability of feedlots, there is a general consensus that the bigger the animal, the less cost-effective it is for the owner of the cattle. However, if heavier steers increase the price premium they receive vis-à-vis the light calves for the domestic market, we could start seeing heavier average slaughter weights. Many producers are also finishing cattle in new areas like the northern provinces of Chaco, Formosa and Corrientes. Cattle in these provinces graze on implanted tropical pastures and are also fed grain or silage.

Weather in 2004 has been very good for cattle production, and far better than 2003, which was very dry. Most feed (grain, silage, round bales) for cattle is produced on-farm, at very low cost. Transport and marketing costs of grain in Argentina are very high; therefore, farmers who are far away from ports prefer to convert grains into beef, obtaining profit from two sides.

Although net returns in the cattle sector in August 2004 were far better than in 2001, prior to the devaluation, they are still quite slim. Based on information extracted from “Margenes Agropecuarios”, a specialized agricultural economic magazine, cow-calf operations, depending on the area where they are, can either lose money or make as much as US$30 per hectare. Cattle finishers, depending on the level of intensification (the more the better), can obtain net margins from of US$30 to US$90 per hectare. In this same period, net returns in the feedlot were all negative, with losses of US$3 per head for light male calves and about US$48 for heavy steers.

The price of land for a cow-calf ranch in the province of Buenos Aires is roughly US$700 per hectare, the highest of the past 25 years, and almost double of the average 1977-2003. The price of land for finishing cattle in the west of the province of Buenos Aires is US$2200, more than twice the average of 1977-2003. Excellent crop returns have driven up all land prices.

Argentina is one of the world’s major grain and oilseeds exporters. Therefore, the feed supply is not a problem. The local pork industry, after many years of low production, seems to be slowly picking up speed. The local poultry industry grew dramatically in the 1990s, but suffered during the economic crisis in 2002-03. Now it is coming back strongly, with production expected to grow about 50 percent in the next 5 years. Most surpluses will be focused on exports, a new and strong trend of the industry. The dairy industry, after several years of low farmgate prices, is profitable again, with expected moderate growth in the next few years.

Consumption

Beef consumption for 2005 is forecast at 2.13 million tons. This is a lower volume than in the past few years, primarily due to an expected shorter slaughter and greater exports.

With a strong and profitable world beef market, Argentina needs to improve its cattle and beef production efficiency, mainly via higher weaning ratios and heavier weights at slaughter. Otherwise, Argentines will be forced to consume less beef, the most popular food. As foreign markets continue to open and FOB prices improve, more beef will be exported. Argentine exporters utilize the carcasses the most efficient way possible. This means that each cut is sold to the most profitable market. Therefore, Argentines in the future will probably consume the more inexpensive cuts.

The average retail price of beef (the most popular cuts, not the most expensive) in mid-2004, was US$2.20 per kilo. The price of loin at a large supermarket is roughly US$4.50 per kilo. Since December 2001, prior to the devaluation, beef prices increased 94 percent, while inflation was 50 percent.

While per capita beef consumption for 2005 is estimated down at 58 kilos, broiler consumption is forecast to increase at 24 kilos. The strong recovery of poultry consumption is primarily the result of very competitive prices vis-à-vis beef. Poultry, which currently sells at retail at US$1.20 per kilo. Pork consumption continues to be low, roughly 6 kilos per capita and is mostly consumed as cold cuts. Lamb and mutton consumption is negligible, except in sparsely populated Patagonia (southern Argentina).

Trade

Exports in 2005 are forecast at 600,000 tons, the highest in the past few decades. This is the result of a stronger world beef market and good profitability in the sector.

The main markets for Argentina in 2005 are expected to be the following: the EU, which is demanding larger volumes on account of firm demand and lower production and stocks. The EU grants Argentina a tariff rate quota (TRQ) called the "Hilton Quota" of 28,000 tons in which product, boneless chilled premium cuts, is imported at very low tariff. Imports outside the TRQ pay high tariffs. However, in 2004 and 2005 large volumes are expected to enter paying the full tariff rate. During the first semester of 2004, the price of the Hilton Quota was US$8,500-9,000 per ton, the highest in the past several years. Although prices have lately dropped somewhat, traders expect firm prices for 2005. In the first semester of 2004, Germany imported 13,000 tons of chilled boneless beef, followed by the Netherlands with 3,500 tons, the United Kingdom and Italy, with 3,000 tons each. The EU and Mercosur (formed by Argentina, Brazil, Paraguay and Uruguay) are discussing a free trade agreement (FTA), which supposedly will be finalized next October. Under this agreement, the EU has offered to grant Mercosur 100,000 tons of another beef TRQ, but South Americans have requested 300,000 tons. If the FTA is finally agreed, (there is skepticism about this prospect), traders believe the final quota will be closer to 150-200,000 tons, of which Brazil would take the largest portion and Argentina would receive 29.5 percent of it. The EU is also expected to increase its imports of cooked frozen beef and corned beef from Argentina.

Exports of thermo-processed beef to the United States grew significantly in 2004 and are expected to continue to do so in 2005. Beef consumption in the U.S. is expected to maintain its growth, as production is stagnant. Traders expect FOB prices in that market to continue very firm. The main product imported from Argentina is cooked frozen beef (with a volume of almost 9,000 tons in the first semester of 2004), followed by corned beef (4,200 tons).

Venezuela, a new market for Argentina, is projected to import large volumes of boneless chilled and frozen beef as part of trade agreements between the two countries.

Chile, which reopened its market in July, will be a market to regain. Prior to the shutdown in September 2003, Argentina was its main supplier. However, with the absence during this period, Brazil has taken over the market. Therefore, Argentine beef will have to compete strongly with more inexpensive Brazilian product. Traders hope to regain at least 30 percent of this 120,000 tons market. This is a market which takes primarily boneless chilled beef of forequarters, which combines very well with exports of hindquarter cuts to the EU.

Russia, although a difficult market to predict for 2005, is expected to continue to buy larger volumes of boneless, low-quality frozen beef in Argentina as its main suppliers are having animal health-related problems. Traders indicate that they are slowly starting to ship high value beef cuts to this market.

Israel, an historic market, is also expected to expand imports of Kosher boneless frozen beef from Argentina. Uruguay, also a historic large supplier to that market, has refocused its exports primarily to the U.S. and the Canadian markets which enjoy higher prices, leaving more room for Argentine exports.

Morocco, which will purchase, through a tender, 9,000 tons of frozen bone-in beef for its army in 2004 and could be repeated in 2005.

Inexpensive, low quality boneless frozen beef markets, such as Algeria, Bulgaria, Egypt, and Angola, which used to be supplied by the EU, are expected to remain firm markets. However, as markets continue to open, and FOB prices increase, these will be the first markets to be dropped.